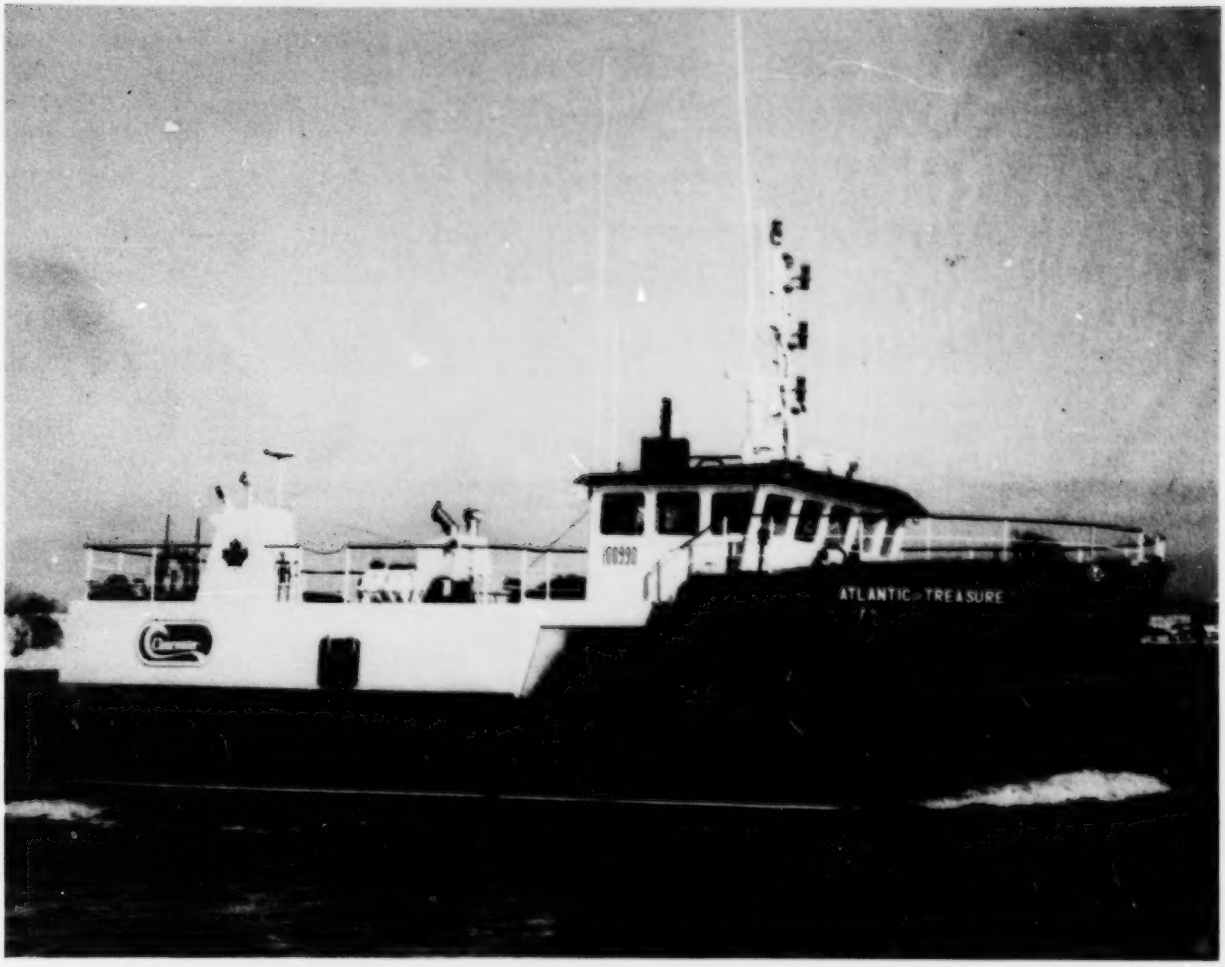
ANNUAL REPORT

MARCH 31, 1988

GEORGETOWN SHIPYARD INC.



65 FT. STEEL LONGLINER CONSTRUCTED FOR CLEARWATER

89-02771/

ANNUAL REPORT

GEORGETOWN SHIPYARD INC.

MARCH 31, 1988

Established by an Act of the Provincial Legislature (23 Eliz. II (2) Cap. 71)

Executive Council under authority of Section 12 did order and issue a Proclamation proclaiming the said "Act to Incorporate Georgetown Shipyard Inc." to come into force effective 5 December 1974.

GEORGETOWN SHIPYARD INC.
P.O. Box 220
Georgetown
Prince Edward Island
C0A 1L0

DIRECTORS OF GEORGETOWN SHIPYARD INC.

AS AT MARCH 31, 1988

Keith T. N. Lapp, Chairman

Beverley Simpson, Vice Chairman

Phillip Wood

Carter Van Iderstine

Everett MacDonald

Cynthia Hickox

Gerard Fitzpatrick

The Honourable Leonce Bernard
Minister Responsible for Georgetown Shipyard Inc.
P.O. Box 2000
Charlottetown, P.E.I.
C1A 7N8

Sir,

In accordance with the provisions of the "Act to Incorporate Georgetown Shipyard Inc.", we submit the Annual Report of Georgetown Shipyard Inc. for the fiscal year ending March 31, 1988.

The Canadian shipbuilding industry in the calendar year 1987 was at the lowest level of production and employment since the start of accurate record keeping 25 years ago. The Canadian Maritime Industries Association (formerly Canadian Shipbuilding and Ship Repair Association) reported that shipyard employment in 1987 averaged only 5,649, down from approximately 12,000 in the period 1980-82. The value of production in 1987 declined 70% from the 1980-82 period. The majority of the production in 1987 (85%) was government work compared to approximately 10% in the earlier period. The statistics are even more alarming when consideration is given to the fact that the 1987 numbers reflect the impact of the Canadian Patrol Frigate Program that was localized in one shipyard.

Georgetown Shipyard was faced with the same situation as most shipyards in Canada. The Company had no new shipbuilding orders at the beginning of the 1987-88 fiscal year. Negotiations were underway with Usen Fisheries for three offshore trawlers but the outlook for the year was not encouraging. A contract for the construction of a 65 steel longliner however, was signed in August 1987 with Clearwater Fine Foods. This provided much needed shipbuilding production in the fall of 1987 during a period of low activity. The Usen vessel contract for three vessels was eventually signed in February 1988 (with federal and provincial government support). Although the contract had little financial impact in the 1987-88 fiscal year, it gave a very favourable base of production and employment for the next two fiscal years.

The primary market for Georgetown Shipyard in the next decade remains the fishing industry. The shipbuilding industry is facing a situation where a duty exemption allows fishing vessels over 100 feet in length entry into Canada duty free from heavily subsidized shipyards in foreign countries. The federal government appears reluctant to make any changes but it must do so if the shipbuilding industry in Canada is to survive. Many fishing companies have taken advantage of this "loophole" and have brought in foreign subsidized vessels at a tremendous loss to Canadian jobs and other economic benefits. The fishing industry, which is paying no license or royalty fee to harvest a resource that belongs to all Canadians, should be required to carry out their operation with Canadian made products.

The ship repair market was seriously affected by the accident on the marine railway that occurred in August 1986. Repairs were made to the cradle and tracks but the facility was not put back into operation until 29 July 1988 (a total of eleven months out of commission). The Company lost the opportunity to bid on the 1987 Spring dockings and refits. The market generally remained at a low level and very competitive. The shipyard was successful in winning contracts for the along-side refit of CCG "Tupper", strut repairs to the MV "Marine Courier", major fire damage repairs to the MV "John Hamilton Grey", and other miscellaneous dockings and repairs.

The industrial market was relatively good in the year. The Company won the contract to fabricate seven Biomass (Wood Chip) Burners for schools and hospitals on P.E.I. There were also additional orders to assemble and test heat exchangers for the district heating systems in Charlottetown. At the end of the fiscal year, a large order was received from Ultramar Canada to convert large oil storage tanks to asphalt holding tanks. There were also contracts for two large navigational buoys and other miscellaneous small jobs.

The modernization of the shipyard has been a recommendation of the Board of Directors for many years if the Company is to compete and survive in a very competitive industry. Substantial funds have been directed to our closest competitors, the Nova Scotia shipyards, through the Canada-Nova Scotia Development Fund Agreement (Offshore Development Fund) to upgrade and to increase the capacity of their shipyards.

A modernization plan to replace antiquated equipment and to introduce new technology into the shipyard was presented to the provincial government in January 1988. The Company, in addition, submitted a Productivity Improvement Plan to the federal government as a requirement to access approximately $500,000 that is available on a 50:50 basis as a productivity improvement grant. Although the modernization and productivity improvement plans do not specifically cover a new Ship Lift System, it is the Board's opinion that there is a long term need for this facility in order to compete in the future for larger fishing, government and commercial vessels.

The Board and management of the shipyard were very pleased that the recommended purchase of the assets and technology of Crockett-McConnell Inc. (a small Nova Scotia shipyard) was approved and financially assisted by the federal and provincial governmment. This purchase which was made at the end of the fiscal year will give Georgetown Shipyard a computer aided design, drafting and manufacturing capability. The Company also acquired the design of a fast rescue craft (together with a contract reassigned from the Canadian Coast Guard for five vessels) and of other small aluminum fishing and utility craft. The acquisition will provide the shipyard with a modern computer technology and new product lines of small vessels to complement our existing products.

The Union Agreement expired on 28 February 1988. Preliminary negotiations commenced but there was no agreement at the March 31, 1988 fiscal year end. A contract has since been concluded, and the Management - Union relationship remained generally good.

The production at the shipyard started out the fiscal year at an extremely low level. The last shipbuilding contracts were completed in December 1986 and there was virtually no work in the yard at the beginning of 1987. The level picked up gradually through the year as shipbuilding, ship repair and industrial contracts were awarded, but manhours for the total year were 32% below the budget which anticipated that the construction of the Usen vessels would have commenced early in 1987.

The shipbuilding production consisted of the building of a small, 45 foot aluminum fishing vessel (Hull 48) "on spec" in the first half of the year and the construction of a 65 foot steel longliner (Hull 49) which was completed in record time in the fall of 1987. The three vessel Usen contract (Hulls 50 to 52) started in the last two months of the year but consisted of engineering and mould loft work and had little impact on the fiscal year's financial results.

Ship repair production was very low at the beginning of the year because of the unavailability of the marine railway. Two major contracts were received in the summer of 1987. These were an alongside refit of the CCG "Tupper" and strut repairs to the MV "Marine Courier". A third major contract was received in the winter of 1988 to repair the fire damage to Marine Atlantic's ferry "John Hamilton Grey".

Industrial production remained relatively steady throughout the year with the contract to construct seven wood chip burners for schools and hospitals throughout Prince Edward Island. There were also the assembly of heat exchangers for district heating and other miscellaneous jobs.

The financial statements for the fiscal year ending 31 March 1988 show that all three categories of the business - shipbuilding, ship repair and industrial - returned favourable gross profit margins which aggregated $415,600 on sales of $3,481,500. However, the low level of production (under utilized facilities) resulted in underabsorption of overhead expenses amounting to $959,200, producing the net loss of $532,800. Even so, the loss was $128,200 less than had been forecast in March 1987 at the beginning of the year.

Despite the loss, the 1987-88 operations were a great improvement over the prior year and demonstrated that given sufficient volume we are capable of efficient and even profitable production. In addition, Georgetown Shipyard contributed $2.8 million to the Prince Edward Island economy during the fiscal year through $1.7 million in salaries and wages and $1.1 million in local purchases of materials, equipment, supplies and services.

The Board of Directors would like to extend our thanks to the tradesmen, staff and management of Georgetown Shipyard for their support and efforts in the operation of the shipyard and the cooperation of you and your department officials for financial support and in negotiating sales contracts during the year under review.

Respectfully submitted,

Keith T. Lapp, F.C.A.
Chairman

GEORGETOWN SHIPYARD INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

March 31, 1988

May 11, 1988

AUDITORS' REPORT TO THE BOARD OF DIRECTORS

We have examined the statement of financial position of Georgetown Shipyard Inc. as at March 31, 1988 and the statements of deficit, loss, and changes in financial position and the schedule of expenses for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the financial statements and notes appended thereto present fairly the financial position of the corporation as at March 31, 1988 and the results of its operations and changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand
Chartered Accountants

GEORGETOWN SHIPYARD INC.

STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 1988

ASSETS

	1988 $	1987 $
CURRENT ASSETS		
Accounts receivable (note 4)	3,600,497	1,151,644
Inventory of materials	718,251	582,468
Incomplete contracts - net (note 2)	634,783	59,494
Deposits - tender and warranty	-	104,000
Prepaid expenses and sundry assets	60,913	76,833
	5,014,444	1,974,439
OTHER ASSETS	44,618	64,060
FIXED ASSETS (note 3)	604,542	499,359
	5,663,604	2,537,858

LIABILITIES

CURRENT LIABILITIES		
Bank advances (note 4)	3,042,345	1,668,886
Accounts payable and accrued liabilities	2,527,980	984,458
	5,570,325	2,653,344
A.D.B. LOAN—WATER SUPPLY SYSTEM	32,361	35,303
NON-INTEREST BEARING ADVANCE FROM THE PROVINCE OF PRINCE EDWARD ISLAND	578,246	578,246
APPRAISAL INCREASE CREDIT (note 3b)	15,482	18,376
	6,196,414	3,285,269
DEFICIT—DUE FROM THE PROVINCE OF PRINCE EDWARD ISLAND	532,810	747,411
	5,663,604	2,537,858

SIGNED ON BEHALF OF THE BOARD

_____

Director

_____

Director

GEORGETOWN SHIPYARD INC.

STATEMENT OF DEFICIT

DUE FROM THE PROVINCE OF PRINCE EDWARD ISLAND

FOR THE YEAR ENDED MARCH 31, 1988

	1988	1987
	$	$
BALANCE—BEGINNING OF YEAR	747,411	808,567
Advances from the Province of Prince Edward Island as payment towards the prior year's loss	747,411	808,567
	—	—
Net loss for the year	532,810	1,511,411
Advance from the Province of Prince Edward Island as payment towards current year losses of the Shipyard	—	764,000
BALANCE—END OF YEAR	532,810	747,411

GEORGETOWN SHIPYARD INC.

STATEMENT OF LOSS

FOR THE YEAR ENDED MARCH 31, 1988

	Hull Contracts $	Repair Contracts $	Industrial Contracts $	Total 1988 $	Total 1987 $
BILLINGS					
Made during the year	3,499,300	837,108	1,365,346	5,701,754	5,472,551
Decrease (increase) in billings made on incomplete contracts					
Opening balances	-	-	10,531	10,531	253,660
Closing balances	(2,230,800)	-	-	(2,230,800)	10,531
	(2,230,800)	-	10,531	(2,220,269)	243,129
Net sales - completed contracts	1,268,500	837,108	1,375,877	3,481,485	5,715,680
COSTS					
Incurred during the year	3,967,306	572,040	1,322,111	5,861,457	5,672,324
Increase (decrease) in costs incurred on incomplete contracts					
Opening balances	-	22,164	47,861	70,025	807,663
Closing balances	(2,842,190)	-	(23,393)	(2,865,583)	(70,025)
	(2,842,190)	22,164	24,468	(2,795,558)	737,638
Net costs—completed contracts	1,125,116	594,204	1,346,580	3,065,900	6,409,962
GROSS PROFIT (LOSS)—COMPLETED CONTRACTS.	143,384	242,904	29,297	415,585	(694,282)
MISCELLANEOUS INCOME				10,851	8,845
				426,436	(685,437)
EXPENSES (schedule)				1,783,337	1,768,780
APPLIED TO NET COSTS				824,091	942,806
				(959,246)	(825,974)
NET LOSS FOR THE YEAR				532,810	1,511,411

GEORGETOWN SHIPYARD INC.

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED MARCH 31, 1988

	1988	1987
	$	$
Salaries, wages and benefits	792,395	889,914
Utilities	99,826	86,145
Security	66,992	63,756
Office and postage	31,845	23,631
Repairs and maintenance	163,072	109,419
Advertising and promotion	18,639	19,051
Supplies and small tools	109,959	103,902
Travel	30,244	26,855
Insurance - premiums	60,391	44,389
- deductible portion of loss (note 5(b))	-	12,750
Taxes	13,971	13,317
Rentals	8,691	20,418
Director fees and expenses	16,049	20,541
Professional fees	89,287	59,360
Bad debts	-	745
Bank charges	2,728	4,109
Interest on bank advances	128,596	168,897
Truck expense	7,811	9,295
Inventory adjustment account	28,036	3,718
Miscellaneous	20,411	16,415
Depreciation and amortization	94,394	72,153
	1,783,337	1,768,780

GEORGETOWN SHIPYARD INC.

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED MARCH 31, 1988

	1988	1987
	$	$
OPERATING ACTIVITIES		
Net loss for the year	(532,810)	(1,511,411)
Items not affecting cash—		
Depreciation	97,288	75,047
Amortization of appraisal credit	(2,894)	(2,894)
	(438,416)	(1,439,258)
Net increase in non-cash working capital balances related to operations	(1,496,483)	(372,181)
	(1,934,899)	(1,811,439)
FINANCING ACTIVITIES		
Payment received from the Province of P.E.I.	747,411	1,572,567
Reduction of A.D.B. loan—water supply	(2,942)	(2,942)
	744,469	1,569,625
INVESTING ACTIVITIES		
Reduction in appraisal credit	(2,894)	(2,894)
Decrease (increase) in other assets	19,442	(25,815)
Purchase of fixed assets—net	(199,577)	(9,076)
	(183,029)	(37,785)
INCREASE IN BANK ADVANCES DURING THE YEAR	(1,373,459)	(279,599)
BANK ADVANCES—BEGINNING OF YEAR	1,668,886	1,389,287
BANK ADVANCES—END OF YEAR	3,042,345	1,668,886

GEORGETOWN SHIPYARD INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1988

1. ACCOUNTING POLICIES

Long-term shipbuilding contracts —

The Shipyard follows the completed contract method of accounting for revenues and expenses relating to contracts. Under this method progress billings on incomplete contracts less costs are included as a current liability and costs in excess of progress billings are recorded as a current asset. Income is recorded when a contract has been completed, however, any anticipated or known losses are recorded by way of a provision at the time they are known.

Inventories —

Inventories are valued at the lower of cost and market. Cost is defined as average cost. Market is defined as replacement cost.

Depreciation —

Depreciation of fixed assets is calculated using the straight line method at the annual rates of 4% for land improvements, 4% for steel and block frame buildings, 6 2/3% for wood frame buildings, 12.5% for the launchway and marine railway improvements, 20% for the machinery and equipment and 10% for the tug.

2. INCOMPLETE CONTRACTS

	Ship Building $	Industrial $	Total 1988 $	Total 1987 $
Costs—				
Material	2,597,322	9,861	2,607,183	56,350
Labour	123,037	6,353	129,390	6,669
Overhead	121,831	7,179	129,010	7,006
	2,842,190	23,393	2,865,583	70,025
Progress billings— Net of federal sales tax	2,230,800	-	2,230,800	10,531
COST IN EXCESS OF PROGRESS BILLINGS	611,390	23,393	634,783	59,494

GEORGETOWN SHIPYARD INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1988

3. FIXED ASSETS

(a) These are classified as follows:

	1988			1987
	Recorded Value	Accumulated depreciation	Net	Net
	$	$	$	$
Land and improvements	140,847	27,112	113,735	115,596
Buildings	669,847	379,454	290,393	319,498
Marine railway improvements	99,525	19,360	80,165	20,850
Launchway	136,547	117,717	18,830	-
Machinery and equipment	793,104	691,685	101,419	43,415
Tug	27,163	27,163	-	-
	1,867,033	1,262,491	604,542	499,359

(b) The land and land improvements, buildings and launchway are recorded at appraised values established January 24, 1974 plus subsequent additions at cost less disposals at the recorded value, except the new stores building which is recorded at its actual cost.

The excess appraised value over the original recorded value is $48,240 and the resulting credit is shown as an appraisal increase credit less amortization of $32,758 accumulated to date.

The marine railway is owned by the Province of Prince Edward Island with improvements being paid for by Georgetown Shipyards Inc. and depreciated at 12½% on the straight-line basis.

4. SECURITY FOR BANK ADVANCES

Guarantees from the Province of Prince Edward Island to the extent of $2,000,000 expiring March 31, 1989 and an assignment of book debts have been pledged as security for bank advances.

5. CONTINGENCIES

(a) During the 1985 fiscal year the company was named as defendant in lawsuits arising from a fire in August 1983, at the Georgetown Wharf. Statements of claim have been received by the company. The company has received independent opinion that the amount of the claim is covered by liability insurance. However, no settlement of this matter has taken place and the deductible portion of the liability insurance remains as an accrued liability.

5. CONTINGENCIES (CONT'D)

(b) An accident occurred August 25, 1986 on the drydocking facility while hauling a vessel out of the water. The Insurance Claim covering physical damage liability and business interruption insurance was filed and is considered valid by Management; however, the Insurance Company has not yet accepted liability.

(c) During the year, the company received notice that a claim was being made as a result of a shipbuilding contract completed in the 1984 year. To date no legal proceedings have commenced and it is management's feeling that liability, if any, is undeterminable at this time. A provision has been made in the accounts for possible future losses.

6. SUBSEQUENT EVENTS

Subsequent to the year end, the company purchased the assets and technologies of Crockett McConnell Inc., a Nova Scotia based company.